



County of Los Angeles

CHIEF ADMINISTRATIVE OFFICE

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Chief Administrative Officer

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August 9, 2005

To: Supervisor Gloria Molina, Chair
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

COUNTY OF LOS ANGELES FISCAL YEAR 2004-05 WORKERS' COMPENSATION PROGRAM EXPERIENCE

This memorandum provides your Board a brief summary of the County of Los Angeles (County) workers' compensation experience. Fiscal Year (FY) 2004-05 results were positively impacted by various legislative measures recently adopted by the State of California (California), accelerated development and implementation of loss control and prevention plans by County departments and the heightened awareness of departmental managers concerning their role in reducing the County's Cost of Risk.

Background

In February 2002, Assembly Bill 749 (Calderon), which provides substantial increases in workers' compensation benefits, but only modest return to work reform, was passed by the Legislature and signed by Governor Davis. A year later, Senate Bill 228 (Alarcon) and Assembly Bill 227 (Vargas) were passed and signed by Governor Davis on September 30, 2003. Assembly Bill 227 and Senate Bill 228 became effective on January 1, 2004, and included significant reform to the control of medical treatment costs and rehabilitation expenses. The following year Senate Bill 899 (Poochigian) was passed as an urgency measure and signed into law by Governor Schwarzenegger on April 19, 2004. Senate Bill 899 contained extensive reform of many aspects of the California workers' compensation system.

Prior to FY 2003-04, the County's workers' compensation costs were increasing at an annual rate in excess of 17%. Because of this upsurge, the County's 2003 and 2004 legislative program included the pursuit of meaningful workers' compensation reform. Many of the adopted reforms were developed under the County's workers' compensation legislative reform program. Professionals and experts possessing comprehensive knowledge of the California workers' compensation system believe the 2004 reforms to be the most comprehensive improvement in the California workers' compensation system during the past 50 years.

County Workers' Compensation Program Experience

During FY 2004-05, expenses paid from the County's Workers' Compensation Trust Fund only totaled \$273 million; **a reduction of \$51 million, 16%**, from FY 2003-04's \$324 million.

The County's actual FY 2004-05 expense of \$273 million was \$141 million, 34% less than the \$414 originally budgeted for FY 2004-05.

The Workers' Compensation Trust Fund's expenses are directly allocated to all County departments based on each department's prior workers' compensation experience. In the future, all County departments will share in the reduction of County workers' compensation expense due to the reforms and departments' improved loss control and prevention efforts.

The Board of Supervisors established the Workers' Compensation Trust Fund's budget for FY 2005-06 at \$330 million. Chief Administrative Office (CAO) staff anticipates the positive impact of the 2003 and 2004 reforms and departments' enhanced loss control and prevention efforts to continue.

The reforms generated 70% of the reduction in the County's workers' compensation experience while departments' loss control and prevention and management involvement generated the remaining 30%.

Elements of Reform

In terms of expense, the most significant reform elements are:

- A comprehensive, expanded medical fee schedule covering many more medical procedures.

- Medical utilization standards of treatment based on guidelines of the American College of Occupational and Environmental Medicine (ACOEM).
- Complete repeal of the treating physician's presumption of correctness.
- A permanent disability rating system focusing on return to work and based on objective permanent disability rating guidelines developed by the American Medical Association.
- New statutory language that limits an employer's liability for permanent disability benefits to only the disability directly caused by employment.
- Provisions enabling employers to utilize Medical Provider Networks to assure timely, high quality and cost effective medical treatment.
- Reform of penalties relating to the improper delay or denial of benefits to eliminate excessively punitive penalties while retaining incentives for timely and proper benefit provision.

Future Expectations

To maximize reforms' impact upon County expense and operations, CAO staff continues working closely with County departments to aggressively implement their loss control and prevention plans and maximize all elements of reform. The CAO continues working with other public and private employers and the insurance industry to provide recommendations to assist the California Division of Workers' Compensation to adopt rules and regulations necessitated by the reforms. CAO staff continues to monitor the legislative process in Sacramento to identify and resist efforts that might inappropriately alter or erode reform.

The reforms and accelerated department loss control and prevention efforts guaranteed significant reductions in the County's overall workers' compensation costs. While departments should not anticipate continued yearly reductions on top of those experienced in FY 2004-05, departments should not experience a return of dramatic annual increases.

Projected Annual Workers' Compensation Paid Costs

The attached chart compares two projections of the County's annual workers' compensation cost. The first projection (FY 2003-04 through FY 2010-11) occurred prior to the 2003 and 2004 workers' compensation reforms and accelerated loss control and prevention efforts. The second projection (FY 2005-06 through FY 2010-11) illustrates the future impact of the reforms and loss control and prevention efforts.

Actual costs are displayed for FY 1999-00 through FY 2004-05.

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This memorandum is a brief summary of the County's FY 2004-05 workers' compensation experience. The CAO will provide your Board with a detailed assessment and review in its *County of Los Angeles Risk Management Annual Report Fiscal Year Ended June 30, 2005*, targeted for completion by the end of this calendar year.

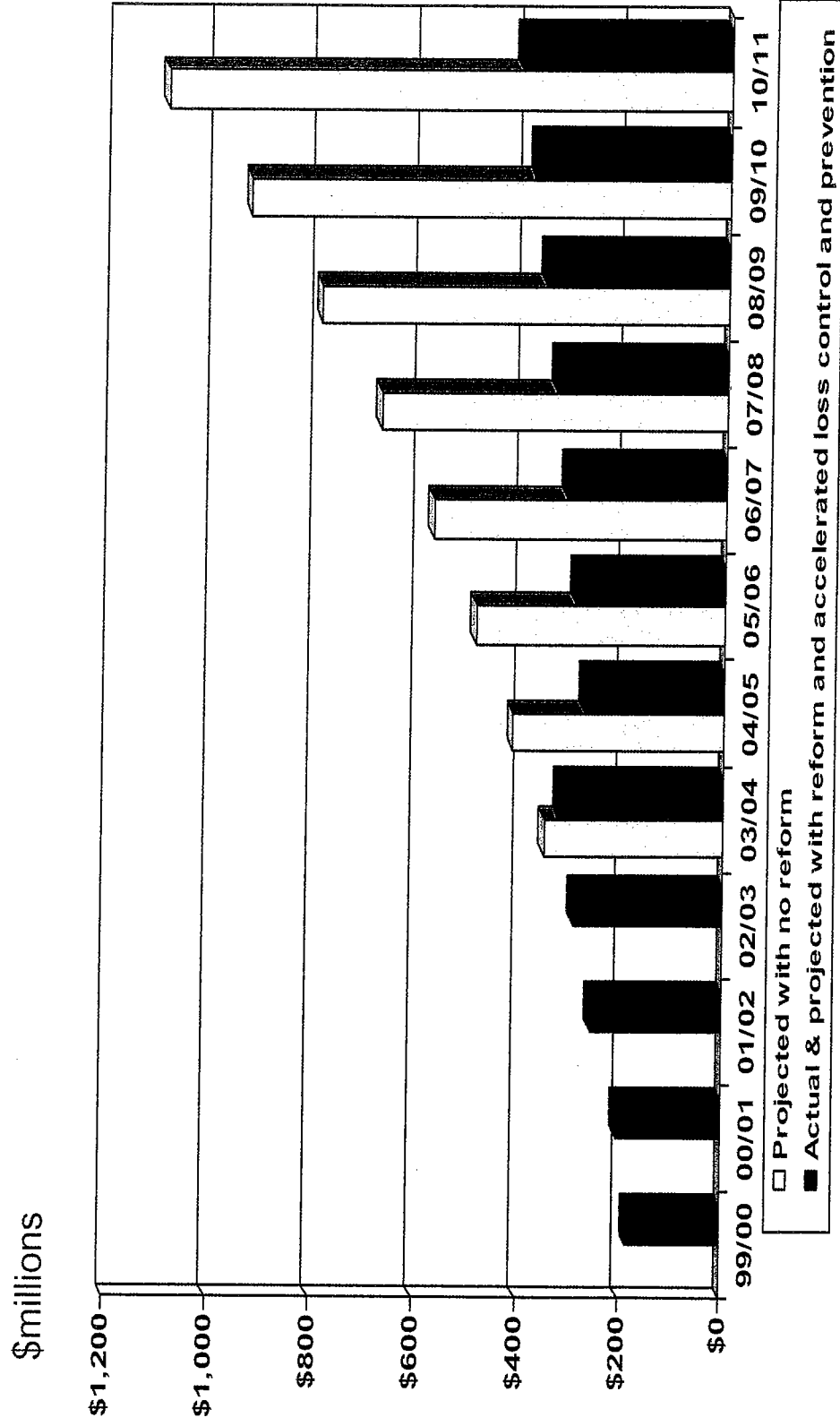
If you have any questions regarding this matter, please contact me or Rocky Armfield, of my staff, at (213) 351-5346.

DEJ:RAA
WM:mtm

Attachment

c: Executive Officer, Board of Supervisors
County Counsel

County of Los Angeles Projected Annual Workers' Compensation Paid Costs



Actual through June 30, 2005